

Message Text

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ACTION EB-07

INFO OCT-01 AF-08 ARA-10 EUR-12 IO-13 ISO-00 AID-05

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00

XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 PA-02 PRS-01 AGRE-00 L-03

H-02 /132 W

-----141622Z 043389 /65

R 141315Z JAN 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 9584

INFO AMEMBASSY LONDON

AMEMBASSY BOGOTA

AMEMBASSY ABIDJAN

AMEMBASSY SAN JOSE

AMEMBASSY GUATEMALA

AMEMBASSY SAN SALVADOR

AMEMBASSY MEXICO CITY

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: EPAP EAGR ETRD BR

SUBJECT: BRAZILIAN COFFEE STOCKS AND EXPORT POLICY

FOLLOWING TELEGRAM WAS PREPARED BY FAS AND CONGEN RIO DE JANEIRO

1. SUMMARY - FAS ESTIMATES BRAZILIAN STOCKS TO BE 19.1

MILLION BAGS AS OF DECEMBER 31. BRAZILIAN COFFEE INSTITUTE

(IBC) MARKETING POLICIES IN 1976 WERE AIMED AT MAXIMIZING

BRAZIL'S COFFEE EXPORT EARNINGS. FAS ESTIMATES THE 1977 BRA-

ZILIAN COFFEE HARVEST AT BETWEEN 15 AND 18 MILLION BAGS. END

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SUMMARY.

2. STOCKS. FAS ESTIMATES BRAZILIAN GREEN COFFEE STOCKS,

BOTH IBC AND PRIVATELY-OWNED,

AT 19.1 MILLION BAGS AS OF DECEMBER 31, 1976. ESTIMATE

IS ARRIVED AT BY THE FOLLOWING CALCULATION (ALL FIGURES ARE

MILLIONS OF 60 KG. BAGS):

	1975/76 (JULY 1 - JUNE 30)	1976 (JULY 1 - DEC. 31)
BEGINNING STOCKS	21	22.5
PRODUCTION	24	9.5
TOTAL SUPPLY	45	32.0
EXPORTS	14	8.9
DOMESTIC CONSUMPTION	8.5	4.0
TOTAL DEMAND	22.5	12.9
ENDING STOCKS	22.5	19.1

IBC STOCK ESTIMATE IS 19.6 MILLION BAGS ACCORDING TO IBC'S PRESIDENT, CAMILO CALAZANS. ALTHOUGH FAS AND IBC PRODUCTION ESTIMATES HAVE DIVERGED (IBC ESTIMATED 75/76 PRODUCTION AT 22.2 MILLION BAGS AND 76/77 PRODUCTION AT 6.4 MILLION), ENDING STOCK ESTIMATES FOR CY 1976 ARE REASONABLY CLOSE BECAUSE IBC DOMESTIC CONSUMPTION ESTIMATES (75/76: 6 MILLION BAGS, 7/1/76 - 12/31/76: 3 MILLION) HAVE BEEN BELOW FAS FIGURES.

3. MARKETING POLICY. COFFEE MARKETING POLICY IS SET BY THE NATIONAL MONETARY COUNCIL AND CARRIED OUT BY THE IBC. IBC USES SEVERAL PRICE MECHANISMS TO ACHIEVE THESE OBJECTIVES:

-- SUPPORT PRICE. CURRENTLY SET AT CR\$900 PER BAG (US\$73.32 PER BAG AT THE CURRENT EXCHANGE RATE OF CR\$12.275 PER US\$1.00). SINCE GROWERS ARE RECEIVING CR\$2200-2350 PER BAG (US\$179.23 - 191.45 PER BAG) ON THE OPEN MARKET (IF THEY ARE SELLING AT ALL), THE SUPPORT PRICE IS NOT NOW A FACTOR.

-- MINIMUM REGISTRATION PRICE. SALES ARE NOT PERMITTED UNCLASSIFIED

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BELOW THIS EXPORT FLOOR PRICE. THE MINIMUM EXPORT PRICE WAS GRADUALLY RAISED DURING 1976, BUT WAS ALWAYS MAINTAINED BELOW INTERNATIONAL MARKET QUOTATIONS. THE MAJOR PURPOSE OF THESE INCREASES, WHICH ACCOMPANY (AND PERTAPS AFFECT) PRICE QUOTATIONS, WAS TO PREVENT FOREIGN EXCHANGE EVASION, I.E., BY NOT ALLOWING EXPORTER TO REGISTER COFFE SALES AT A LOW REGISTRATION PRICE THE GOB PREVENTS EXPORTERS FROM EARNING THE DIFFERENCE BETWEEN THIS PRICE AND THE EFFECTIVE HIGHER SELLING PRICE IN FOREIGN EXCHANGE.

-- CONTRIBUTION QUOTA (CONFISCO CAMBIAL, I.E., CONFISCATED EXCHANGE). THE CONTRIBUTION QUOTA IS A TAX INSTITUTED IN 1961 APPLICABLE TO COFFEE EXPORTS. REVENUES FROM THIS EXPORT TAX GO INTO THE COFFEE FUND, THE RESOURCES OF WHICH ARE SUPPOSED TO BE USED EXCLUSIVELY FOR THE BENEFIT OF THE COFFEE SECTOR. ACCEPTABLE USES INCLUDE: (1) IN YEARS OF OVERPRODUCTION, BUYING COFFEE SURPLUSES FROM GROWERS AT THE SUPPORT PRICE IN FORCE; (2) MAINTAINING EXISTING IBC NETWORK OF WAREHOUSES AND COFFEE

STOCKS; (3) PARTIAL SUBSIDY FOR DOMESTIC CONSUMPTION OF COFFEE; (4) INDIRECT AND PARTIAL SUBSIDY OF COFFEE SUPPLIES TO DOMESTIC SOLUBLE COFFEE MANUFACTURERS; (5) FINANCING OF THE HUGE IBC PROGRAM FOR PLANTING OF NEW COFFEE TREES AND FOR RECOVERY OF FROST-DAMAGED TREES; (6) FINANCING THE PRODUCTION OF COFFEE SEEDLINGS TO BE SOLD TO GROWERS; (7) FINANCING OF THE PURCHASE OF FUNGICIDES TO CONTROL COFFEE RUST AND OF INSECTICIDES. ITEMS 5,6 AND 7 HAVE ABSORBED OVER ONE BILLION US DOLLARS SINCE AUGUST 1975.

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4. RECENT MARKET DEVELOPMENTS. IN LATE 1975 AND EARLY 1976, IBC MAINTAINED THE VALUE OF THE CONTRIBUTION QUOTA AT A LOW LEVEL, ABOUT 17 TO 20 PERCENT OF THE MINIMUM EXPORT PRICE. IBC'S OBJECTIVE WAS TO TRANSFER ALMOST ALL THE BENEFIT OF THE INCREASES IN COFFEE PRICES IN THE WORLD MARKET TO THE BRAZILIAN COFFEE GROWERS

TO INDUCE THEM TO PLANT MORE NEW TREES TO COMPENSATE, AS
SOON AS POSSIBLE, FOR THE FROST LOSS. THE RISING COFFEE
PRICES IN THE WORLD MARKET AND THE PROSPECT OF FURTHER
INCREASES DURING THE FIRST SEMESTER OF 1976 ENCOURAGED
GROWERS TO HOLD THEIR COFFEE STOCKS OFF THE MARKET,
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THEREFORE COFFEE SUPPLIES TO EXPORTERS BECAME TIGHT.
THE RESULT WAS A LOW AVERAGE MONTHLY EXPORT VOLUME OF 890,000
BAGS DURING THE PERIOD JANUARY/MAY 1976. IBC THEN
ANNOUNCED IN MAY THAT THE VALUE OF THE CONTRIBUTION
QUOTA WOULD BE RAISED FROM US\$29 TO US\$35 PER BAG EFFECTIVE
JULY 1ST. THIS MEANT THAT EVERY SALE MADE PRIOR TO JULY 1ST
WOULD HAVE ADVANTAGE OF US\$6 PER BAG. THE RESULT WAS OBSERVED
IN THE VOLUME OF COFFEE EXPORTED DURING THE MONTH OF JUNE:
2.1 MILLION BAGS. DURING THE FOLLOWING MONTHS OF JULY,
AUGUST, AND SEPTEMBER, THE MONTHLY COFFEE EXPORT
VOLUME AGAIN DECLINED TO 1.1, 0.9 AND 0.9 MILLION BAGS,
RESPECTIVELY. AS YEAR-END 1976 NEARED, BRAZILIAN
BALANCE OF PAYMENT PROBLEMS AND THE APPROACHING CENTRAL
AMERICAN COFFEE HARVEST PUSHED THE IBC TO ENCOURAGE GREATER
EXPORTS. HEAVY SALES WERE REGISTERED FOR SHIPMENT DURING
OCTOBER, NOVEMBER, AND DECEMBER, OF 1.5, 1.7, AND 2.7 MILLION
BAGS, RESPECTIVELY.

5. BY DECEMBER, IBC'S CHIEF CONCERN BECAME THE MAINTENANCE
OF BRAZILIAN STOCKS AT ADEQUATE LEVELS. ON DECEMBER 10, 1976,
IBC RAISED THE CONTRIBUTION QUOTA FROM US\$35 TO US\$55 PER BAG,
AND THE REGISTRATION PRICE FROM US\$1.70 TO US\$1.90 PER POUND--
BOTH MOVES TO ACCOMPANY THE INCREASES IN WORLD MARKET
QUOTATIONS. THIS MEASURE DID NOT SLOW EXPORT REGISTRATIONS
THUS CAUSING BRAZIL'S COFFEE STOCKS TO DROP
RAPIDLY. ELEVEN DAYS LATER IBC RAISED THE CON-
TRIBUTION QUOTA AGAIN TO US\$80.00 PER BAG, AND THEN TEN DAYS
LATER IT WAS UPPED TO US\$100. PER BAG. THE MINIMUM
EXPORT PRICE WAS RAISED TO US\$2.10 PER POUND WITH THE
WORLD MARKET PRICE AT US\$2.21 PER POUND. IBC'S CALAZANS
SAID TO THE PRESS THAT BRAZIL'S
MONTHLY EXPORT VOLUME WILL
DEPEND ON THE LEVEL OF EXISTING STOCKS.

6. FUTURE PROSPECTS. FAS ESTIMATES THAT ON JUNE 30, 1977,
THE END OF THE CURRENT 1976/77 COFFEE MARKETING YEAR,
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BRAZIL'S TOTAL ENDING STOCKS WILL BE ABOUT 10 MILLION

BAGS. THIS ESTIMATE ASSUMES THAT COFFEE EXPORTS AND DOMESTIC CONSUMPTION DURING THE PERIOD JANUARY/ JUNE 1977 DO NOT EXCEED 5 AND 4 MILLION BAGS RESPECTIVELY. AS THE FROST-THREATENING MONTHS OF JULY-AUGUST, 1977, APPROACH, THE WORLD MARKET FOR COFFEE WILL LIKELY BECOME NERVOUS, PERHAPS WITH CONTINUED HIGH COFFEE PRICES. IF BY MID-AUGUST NO DISASTROUS FROST OCCURS, THE INTERNATIONAL COFFEE MARKET WILL LIKELY CALM SOMEWHAT. BY THIS TIME, BRAZIL'S 1977 COFFEE HARVEST WILL BE COMPLETED. THIS HARVEST IS EXPECTED TO BE BETWEEN 15 AND 18 MILLION BAGS (SEE FAS/BB-7002), BRINGING TOTAL COFFEE SUPPLIES ON JULY 1, 1977, THE BEGINNING OF THE 1977/78 MARKETING YEAR, TO BETWEEN 25 AND 28 MILLION BAGS. UNTIL THE LAST WEEK OF DECEMBER, IBC WAS ESTIMATING 15 MILLION BAGS FOR THE 1977 HARVEST. ABOUT A WEEK AGO, HOWEVER, THIS ESTIMATE WAS REDUCED TO 13 MILLION BAGS WITHOUT FURTHER EXPLANATION. PRECISE ESTIMATES FOR SUBSEQUENT CROPS ARE NOT POSSIBLE BECAUSE OF THE UNPREDICTABILITY OF WEATHER AND OTHER FACTORS THAT DETERMINE THE SIZE OF A CROP. FAS ESTIMATES ROUGHLY A POTENTIAL OF 22 MILLION BAGS FOR THE 1978 CROP, AND A POTENTIAL OF 26-27 MILLION BAGS FOR THE 1979 CROP. CRIMMINS

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Message Attributes

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